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Highlights of Sessions at the October 2013 SOA Annual Meeting

by Kurt A. Guske



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This article contains a summary of some of the presentations given at the October 2013 SOA Annual Meeting in San Diego. While this article covers only a portion of sessions that are related to product development, it shares observations that have been made by various members of the SOA Product Development Section Council. We encourage everyone to join our LinkedIn group where you can participate in discussions on these or any other topics that are relevant to our business.

Session 85 Workshop: Illustration Model Regulation Compliance by Donna Megregian

Moderator/Presenter/Facilitator: Donna Megregian (Milliman)

Donna moderated an interactive session focused on the revised 2013 illustration model regulation practice notes. Attendees discussed current issues surrounding the regulation, such as with new business and in-force compliance, administration of the lapse and self-support tests, and annual certification considerations

and suggestions. The attendees also conferred on hot topics including:

- how to deal with expenses
- compliance issues around indexed life products
- non-illustrated product projections showing only guarantees
- the appropriateness of reflecting inflation in expenses

For a copy of the latest practice notes, go to the American Academy of Actuaries website link:

http://www.actuary.org/files/Life_Illustrations_Practice_Note_8-29-13.%5Beventyyy%5D.8.pdf

Session 166 Term In-Force Management by Donna Megregian

Moderator/Presenter: Donna Megregian (Milliman)

Presenter: Sebastian Kleber (Swiss Re)

Presenter: Stephanie J. Koch (RGA)



Donna opened the session by giving a quick overview of the term market. She stated that the estimated 2012 term (both group and individual) face amount in-force of \$22 Trillion requires the insurance industry to manage a large amount of business. She opined that term business can often be thought of having little optionality. While in fact with features such as lapse provisions, conversion and other options like guaranteed insurability, planning is required to both retain the business and keep the desired profitability levels originally anticipated for the block. The company has options as well. A corporate strategy may be to incent the policyholder to exercise options available that would help the company meet its financial goals.

Next, Seb discussed insights from Swiss Re's term conversion experience study and an administration survey recently sponsored by Swiss Re. The administration of conversions is often manual and quality of data is critical to creating an accurate study based on the original policy information especially the original issue date and plan.

The experience study results are showing that there is a clear uptick in the conversion rate for 10-year term business in the last year of the conversion period. Associated with this has been an increase in the overall mortality for those later duration conversions. Conversions occurring in the first four years of the policy tend to have similar mortality as expected for newly issued policies. Policies converting in years five to eight tend to have an increased mortality compared to non-converted policies in those durations, and still higher mortality for those in durations nine to eleven. Seb also showed results by age. One interesting point is that most companies have an age limitation on their conversion privilege. Older issue ages having to convert earlier due to the limitation exhibited better mortality than younger issue ages that have the option to wait until the end of the full level term period.

Stephanie then presented preliminary results from an SOA post-level term assumption analysis, not yet available at the time this article was written. This is an update to the previous studies published in 2007 and 2009. Experience study results will follow the assump-

tion study. Stephanie also layered RGA experience with the assumptions from the SOA study. Shock lapse is often discussed relative to the increase in premium from the level premium period. One of the more startling observations of the results was how consistently steep the relationship of the mortality shock experience is to the premium jump. There was a steeper shock lapse increase for premium ratios up to 10 times. The shock lapse rate increase leveled off on ratios from 10 to 30 times.

She discussed company mitigation strategies to the shock lapse level. They often include changing or lowering the post level premium scale. Certain considerations around this strategy include having the ability to change premium (allowed by the policy form), compliance with illustration testing for non-guaranteed elements on illustrated policy forms, compliance with actuarial guideline 22, and the New York self-support test when changes are made to the policy form.

This topic will again be covered at the May 2014 SOA Life and Annuity Symposium in Atlanta. Please be sure to attend it if you didn't get the chance at the SOA Annual Meeting.

Session 97 – Perspectives on Mortality Trends by Paula Hodges

Moderator: Michael L. Kaster (Willis Re)

Presenter: Brian Ivanovic (Swiss Re)

Presenter: Chris Breaux (Risk Management Solutions)

Presenter: Rob Foster (SCOR)

The session on Mortality Trends brought together three panelists who presented varying perspectives on mortality trends as within the general population and also how those trends may differ from the insured populations.

Brian reviewed recent cause of death trends in the US population, identifying key causal drivers by age and further providing information on how those trends vary by per capita income grouping. At younger ages Brian shared information on how the recent economic recession might have contributed to a mid-2000's

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abrupt decline in motor vehicle deaths, raising a question about what trends might be observed as we move further out of the recession. Brian also noted some interesting trends regarding mortality increases related to abuse of prescription drugs in middle ages, which is becoming an even more important cause of death at these ages than motor vehicle accidents. Because COD proportions have some similarity between population and insured groups analyzing key causal drivers of population mortality trends can have benefit in predicting the emergence of similar trends in insured groups.

Chris discussed how we might need to approach modeling changes in mortality as various trends emerge. Identifying inflection points in mortality curves is challenging to identify when they occur, and only become apparent several years later. For example, mortality due to cardiovascular disease has been decreasing linearly since 1970, but will need to hit an inflection point and begin to level out. It is hard to tell if this has already occurred. Chris also discussed various parameters that can be effectively used when modeling mortality trends. These include lifestyle, health environment, medical intervention, regenerative medicine and the biology of aging. The challenge is quantifying each of these and putting reasonable bounds on the simulations.

Rob discussed approaches for modeling mortality improvements. He discussed the difference between generational improvement (adjusting for past mortality improvements) and durational improvement (adjusting for future mortality improvements). Due to the large amounts of data required to study these improvements, Rob referred to general population data, rather than insured data. When choosing whether to use mortality improvement in actuarial models, considerations need to be given for whether it is practical to consider the improvement, whether there are regulatory restrictions in the application, and whether the improvement will persist over time.

Session 113 – Assumption Setting in a SOX/MAR/PBR World by Paula Hodges

Moderator: Paula Hodges (Ameritas)

Presenter: Bill Winterman (SCOR)

Presenter: Yvonne McCullough (Nationwide Financial)

Bill provided an overview of the increased scrutiny that will be placed on assumption setting that will be required if/when Principles Based Reserves become adopted. The assumptions that companies will use will need to be substantiated by a certain level of experience credibility. In lieu of the credibility, industry assumption tables will be required to be used. The regulation will also require margins for adverse deviation when calculating the reserves.

Yvonne McCullough discussed the importance of strong governance around assumption management. Many companies are increasing the rigor around assumptions estimation, documentation, the approval process and assumption consistency. Companies are addressing these challenges in various ways. She shared some of the best practices for presenting assumption proposals, maintaining assumption histories, and the benefits that can be gained by implementing stronger governance and controls around assumptions.

Session 45 – Current Research Topics Concerning Mortality by Dave Moran

Moderator: David Wylde (SCOR)

Presenter: Dieter Gaubatz (Munich Re)

Presenter: Al Klein (Milliman)

Presenter: Tim Rozar (RGA)

At this session, the expert panelists reviewed the results of three recent mortality studies/surveys. Dieter Gaubatz reviewed the 2008-2009 SOA Individual Life Experience Study. He covered topics such as preferred wear-off, term mortality during the post-level period, and older-age mortality (issue ages 70+) by experience year.

Al Klein discussed preliminary results from the Society's survey of select period mortality assumptions. This survey included several different types of analysis. Among these were various duration to duration ratio analyses, ranking analyses to determine stability of rates among different companies, and examinations of the use of preferred wear-off and durational mortality improvement assumptions.

Tim Rozar covered the summarized responses to a recent survey on older age mortality and other actuarial assumptions. This survey received data from 20 different companies, 18 of which included responses for fully-underwritten life products while five also included responses for long-term care insurance. The survey report includes analysis of product designs and sales trends by age, underwriting requirements at older ages, and actuarial assumptions at older ages. These assumptions include selection factors, preferred discounts, mortality improvement, and lapse assumptions.

Session 59 – Regulatory and Tax Update by Dave Moran

Moderator: Brian King (Ernst & Young)

Presenter: Kristin Norberg (Ernst & Young)

Presenter: Sim Segal (SimErgy Consulting)

Presenter: Craig Springfield (Davis & Harman LLP)

Craig Springfield began the session with an overview of anticipated updates to 7702 and 7702A. Most of these updates focused on expected guidance for the definition of Cash Surrender Value and issues regarding secondary guarantees and cash values. There was also some discussion of recent approaches to the accounting of accelerated death benefits. Finally, Craig provided an update on the tax treatment of insurance products for same-sex marriages based on the recent Supreme Court case of *United States v. Windsor*.

Kristin Norberg then provided an overview of recent changes to and emerging issues surrounding AG 38, including the NYDFS letter of Sept. 11, 2013 and the insurance industry's response.

Sim Segal presented a brief discussion on ORSA (Own Risk Solvency Assessment), highlighting key requirements and their potential impacts on product design, including:

- new risks, such as strategic and operational risks;
- more risk scenarios, including upside scenarios;
- changes to risk limits, due to linkages to risk appetite;
- re-pricing for changes in risk-return profile, including capital allocation; and
- changes to reinsurance, due to an enhanced decision-making framework and deeper understanding of risk interactions. □



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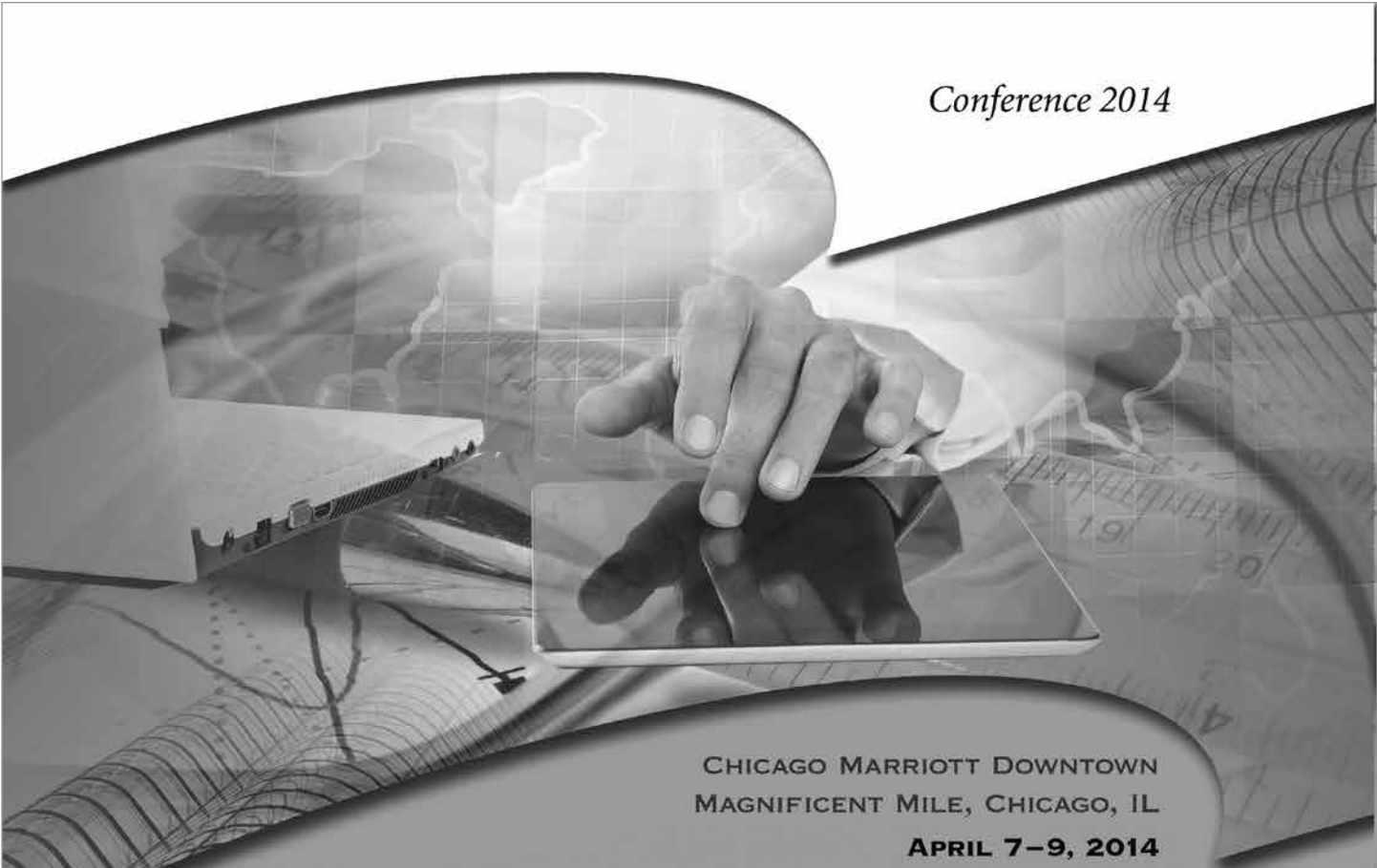


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